MONTANA Economy at a Glance

SEPTEMBER 2008

EMPLOYMENT BY INDUSTRY

(Does not include self-employed or agricultural employment)

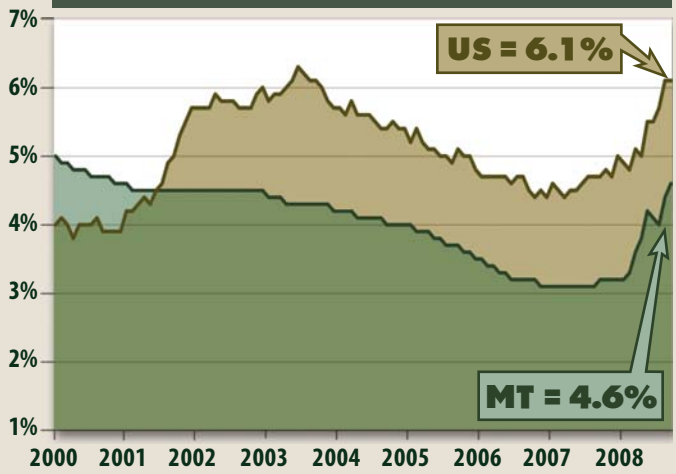
Industry Employment (in thousands)	Sept.(P) 2008	Aug. 2008	Net Change	Percent Change
Total Non-Agricultural	450.2	451.7	-1.5	-0.3%
Natural Resources & Mining	8.3	8.4	-0.1	-1.2%
Construction	31.2	31.5	-0.3	-1.0%
Manufacturing	20.6	20.5	0.1	0.5%
Trade, Transportation, & Utilities	93.5	93.5	0.0	0.0%
Information	7.8	7.8	0.0	0.0%
Financial Activities	22.0	22.0	0.0	0.0%
Professional & Business Services	39.9	40.5	-0.6	-1.5%
Education & Health Services	60.6	61.1	-0.5	-0.8%
Leisure & Hospitality	59.6	59.6	0.0	0.0%
Other Services	17.9	17.8	0.1	0.6%
Total Government	88.8	89.0	-0.2	-0.2%

(P) denotes preliminary figures

Montana's seasonally-adjusted non-agricultural payroll employment decreased by 1,500 jobs (-0.3%) from August to September 2008. The two sectors that experienced gains were Manufacturing (+0.5%) and "Other Services" (+0.6%), each of which added 100 jobs over the month.

UNEMPLOYMENT RATE

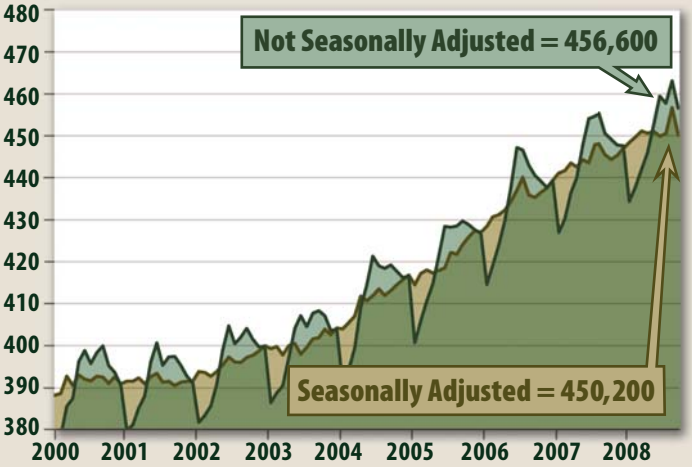
Seasonally Adjusted



Montana's seasonally-adjusted unemployment rate increased to 4.6% in September 2008 from 4.4% in August. The U.S. rate remained steady at 6.1% over the month.

NON-FARM EMPLOYMENT

In Thousands



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SCARY ECONOMIC TIMES

by Barbara Wagner, Economist

This October, Americans have not been scared by ghosts and goblins arriving on Halloween night, but by economists and politicians warning of recessionary economic conditions. While some of the gloom and doom seems comparable to teenage ghouls scaring young trick-or-treaters to steal their candy, there is no doubt that the national economy is troubled. Prices for home heating fuels have increased by 11.8% over the past year, while prices for gas and food have increased 31.7% and 6.0% respectively. Nationally, over 159,000 people lost their jobs in September.[1] The stock market has plunged, and Congress has passed legislation to provide $700 billion to the struggling financial industry.

There is also little doubt that national economic conditions have impacted Montana's economy. Since January, Montana's unemployment rate has increased from 3.2% to 4.6%. Yet, Montana's payroll employment has increased by 22,200 jobs since January, and has the third best job growth in the nation. From one data series, we could deduce that Montana's economy is in trouble, yet another indicates that Montana's economy continues to prosper. Is this Halloween nightmare a reality, or there something else behind the mask?

The mixed employment data of higher unemployment but growing jobs is not a problem only in Montana. Nationally, one data series from a survey of households indicates that 529,000 jobs have been lost from January to August, while another figure from a survey of businesses indicates that only 227,000 jobs have been lost. However, Montana is one of the states where the disparity between the employment statistics is the largest (4.2%). Further, Montana is one of the few states where the employment statistics point in different directions – one data series indicates expansion, while the other indicates contraction.[2]

The reason for the disparity is that the employment numbers come from different data series, each measuring slightly different things. The Research and Analysis Bureau (R&A) and the Bureau of Labor Statistics (BLS) report two different data series each month: the Current Employment Statistics and the Local Area Unemployment Statistics.

The Current Employment Statistics (CES) is a survey of businesses in Montana used to determine the level of payroll employment. Since January 2008, the CES has shown job growth in Montana of 22,200 jobs, or 1,800 jobs on a seasonally adjusted basis. The CES is the only source for current month job counts by industry. Table One (below) shows the change in payroll employment by industry over the past month, since January, and over the past year.

Table One: Seasonally Adjusted CES Payroll Employment Change by Industry

Industry	Change from Prior Month	Change Since January	Change since Sept. '07
Natural Resources and Mining	-100	-200	-200
Construction	-300	-1,500	-2,000
Manufacturing	100	200	100
Trade, Transportation, Utilities	0	-100	2,100
Information	0	100	200
Financial Activities	0	300	-600
Professional and Business Services	-600	-1,900	-1,400
Education and Health Services	-500	800	1,300
Leisure and Hospitality	0	600	900
Other Services	100	800	500

Natural Resources and Mining, Construction, Financial Activities, and Professional and Business Services have experienced employment declines over the past year. The job losses in Financial Activities are largely due to national problems in the finance industry. Heavy and civil engineering, a subset of construction, has increased jobs, but job losses from residential and specialty trade construction has outweighed the job gains. The job losses in Natural Resources and Mining are most likely coming from mining support activities, while the job losses in Professional and Business Services are coming primarily from employment services (like Westaff). Temporary employees hired through an employment service like Westaff are considered employees of the Professional Services industry. Manufacturing has increased jobs, despite significant losses in wood products manufacturing.

Whereas the CES figures indicate that Montana's economy continues to expand, the Local Area Unemployment Statistics (LAUS), paint a more pessimistic picture. The LAUS data series provides the estimate of Montana's unemployment rate, in addition to the labor force, employment, and unemployed workers. The LAUS data series indicates a seasonally-adjusted job loss in Montana of -4,395 since January, although the non-adjusted figures show a job gain of 8,715 jobs.

The difference between the CES and LAUS employment estimates are partially due to differences in what each data series measures. Whereas CES is a survey of businesses that measures payroll employment, the LAUS data include a measurement of the self-employed and agricultural workers from a survey of households. If we were to assume that both CES and LAUS statistics are accurate, the difference in the employment measures would be the self-employed and agricultural workers. Using seasonally-adjusted numbers, the LAUS statistics show a total job loss of -4,395, and the CES shows a gain of 1,800 jobs. Therefore, 6,195 self-employed or agricultural workers have lost their jobs since January 2008.

Because the self-employed are often more sensitive to changes in the economy than payroll employees, and because construction, real estate, and wood products workers all make up a significant portion of the self-employed in Montana, it is not surprising to see job losses in the self-employed sector. However, the large and persistent disparity in the fortunes of the self-employed compared to payroll employees is questionable and may be related to the methodology of the unemployment statistics.

The LAUS statistics combine data from three different data sources to arrive at the employment estimates. The data for the LAUS system comes from (1) the CES, (2) the number of Unemployment Insurance claims in Montana, and (3) a national survey of households conducted by the Bureau of Labor Statistics called the Current Population Survey (CPS). The CPS conducts interviews of households across the country, including 770 households in Montana, which is then used to estimate the national unemployment rate. Because of the small sample size in Montana, monthly data from the CPS in Montana must be combined with other data to maintain a margin of error for the unemployment rate of plus or minus 0.8%.

In order to reduce volatility in the monthly estimates, the LAUS statistics include a national bias through the CPS – meaning that if the national unemployment rate increases, the Montana rate is likely to show increases as well, regardless of the data from within the state. Under normal circumstances, when Montana's economic performance follows national trends, the national bias increases the accuracy and minimizes the volatility of monthly unemployment rate estimates. However, if Montana's economic performance differs from the national performance, the LAUS estimates will overestimate the impact of the national economy on Montana's unemployment rate.

There is also some concern that the CPS data may include bias due to low consumer sentiment or because respondents may be seeking extended unemployment benefits. For example, some national economists have suggested that a portion of the August increase in the national unemployment rate was a result of the recent extension of unemployment benefits. Those with exhausted benefits would have reported themselves as "out of the labor force," but are now reporting themselves as unemployed in order to remain consistent with their reporting to the unemployment insurance agency.

In summary, the CES and LAUS employment estimates measure different employment from different sources. The CES measures payroll employment from a survey of businesses, while the LAUS data measures total employment (including payroll and the self-employed) from a variety of sources, including a survey of households. Each survey has its strengths and weaknesses. Unfortunately, it is not yet clear which of these data series is doing a better job of measuring the Montana economy.

At the end of each year, the CES and LAUS data are compared to another data series, the Quarterly Census of Employment and Wages (QCEW), in a process called benchmarking. The QCEW is considered the most accurate of the employment and wage data because it is collected directly from businesses through mandatory Unemployment Insurance reporting. Although accurate, QCEW is not a current-month data series; finalized QCEW data is not published until two quarters later.

Last year, both the CES and the LAUS were fairly accurate in the employment estimate, with an average difference between the benchmark and the monthly estimates of only 0.6% for CES and 0.2% for LAUS. Therefore, last year's performance gives us little indication of which employment figure is best. There was significant difference between the monthly estimates of the unemployment rate and the benchmarked unemployment rate, however, which resulted from an underestimate of the number of unemployed people. The average difference between the benchmark and the monthly estimates of the unemployment rate was 17.5%, which moved the estimated annual unemployment rate from 2.7% to 3.2%.

Montana Compared to the Nation and Other States

Perhaps the best way to measure Montana's economic performance is to measure apples to apples and compare each employment measure with the similar measure in other states and the nation. Nationally, the unemployment rate for September was 6.1%, which is above the "normal" or "acceptable" level of unemployment of 4.0% to 5.5%. In comparison, Montana's unemployment rate in September is 4.6%, which is still well within the levels considered "healthy" by most economists.

National job estimates have shown consistent job losses since the start of the year. However, Montana has not. Table Two (below) shows the job gains and losses for each data series over the last month, since January, and over the past year. Even using the most pessimistic estimate, the LAUS unadjusted data, September is only the second straight month of job losses because there were job gains in July. September is the first month with employment declines for payroll employment in the CES, perhaps showing the start of a downward trend in that data series. Both the seasonal and unadjusted CES data show positive job growth in Montana over the year and since January. Seasonally adjusted CES data show Montana gaining 1,800 payroll jobs since January, and CES unadjusted data show payroll job gains of 22,200.

Table Two: Montana Employment Change by Data Series

Data Series	Change from Prior Month	Change Since January	Change since Sept. '07
LAUS			
Seasonally Adjusted	866	-4,395	-1,894
Unadjusted	-7,568	8,715	-2,010
CES			
Seasonally Adjusted	-1,500	1,800	2,500
Unadjusted	-1,300	22,200	6,000

Regionally, Montana's economic performance is similar to our neighbors. The following chart compares Montana's unemployment rate from January to August with surrounding states. Idaho has undergone the greatest change in its unemployment rate, with an increase of 1.8% since the start of the year. Wyo-

ming and Montana have both increased by 1.2%, while North Dakota and South Dakota trail with increases of 0.4% and 0.7% respectively. While all states have experienced increases in the rates, the impact of a harmed wood products industry is evident in the large increases experienced by Idaho, with diminishing increases in states that are less dependent on this industry.

Table Three: Montana's Unemployment Rate compared to Surrounding States - January through August 2008

	ID	MT	ND	SD	WY
Jan. 08	2.8	3.2	3.2	2.6	2.7
Feb. 08	2.8	3.3	3.1	2.6	2.7
Mar. 08	3.0	3.6	3.1	2.5	3.1
Apr. 08	3.1	3.8	3.1	2.6	2.6
May 08	3.6	4.2	3.3	2.9	2.9
Jun. 08	3.8	4.1	3.2	2.8	3.2
Jul. 08	4.1	4.0	3.5	3.0	3.6
Aug. 08	4.6	4.4	3.6	3.3	3.9
Increase since Start of Year	1.8	1.2	0.4	0.7	1.2

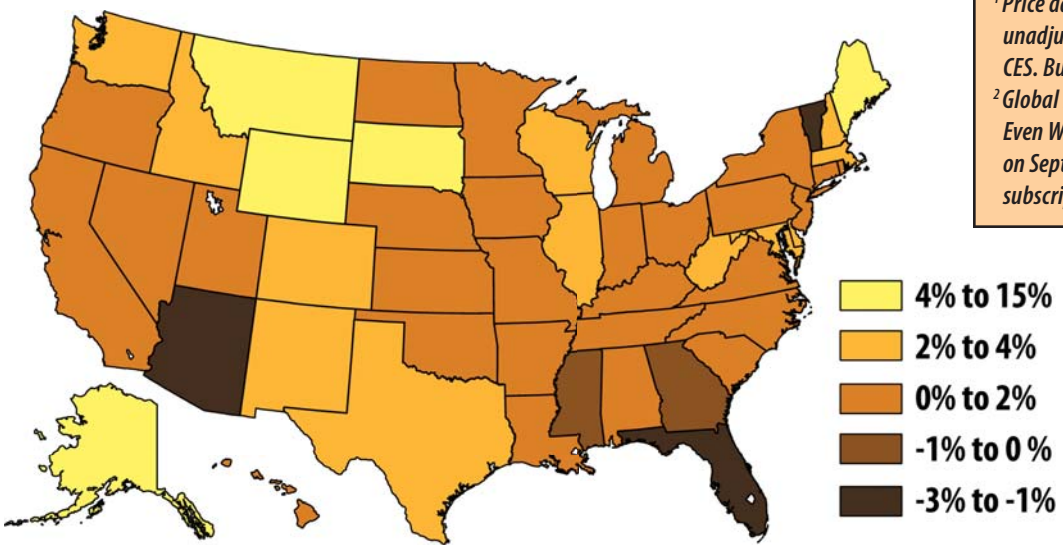
Montana is also faring fairly well in comparison to other states in the nation. Using CES unadjusted data, Montana remains 3rd in job growth from the start of the year through August with 5.9% growth. Alaska and Wyoming are first and second, with South Dakota and Maine finishing out the top five. The prominence of Alaska and Wyoming indicates that agriculture and oil and gas industries are likely playing a stabilizing role in the economies of these two states and in Montana. High commodity prices for agricultural and energy products encourage growth in these industries and also help employment in other industries through spillover effects. Below is a national map showing job growth from January to August.

Keep in mind, however, that the LAUS data (which includes measures of the self-employed and agricultural workers) does not show employment growth since the start of the year. Using the worst-case scenario of losing -5,261 jobs from January to August (LAUS seasonally adjusted data), Montana ranks 31st in the nation. Using LAUS unadjusted data through August, our growth of 16,283 total jobs (3.4%) puts us in 7th place for growth since January 2008.

In comparison to other states and to the nation, Montana's economy appears to be weathering the national economic crisis fairly well. Although the employment statistics within the state give mixed signals, comparing these statistics to those from other states puts Montana from the middle to the top of the pack, depending on which statistic is used.

Even at the top of the pack, however, Montana's job growth has slowed from the rapid pace of the past two years. Although the increase in the unemployment rate may be overstated in the statistics, there is still no doubt that the unemployment rate has increased since 2007. There is no doubt that the national economic crisis has impacted the Montana economy, and these impacts will likely worsen the longer the national economic crisis continues. Further, while agriculture and energy have thus far played a stabilizing role, the recent decline in commodity prices likely will reduce the positive spillovers from these industries. Unfortunately, the Halloween scare does not seem to be over.

Figure One: State Employment Growth, January through August 2008



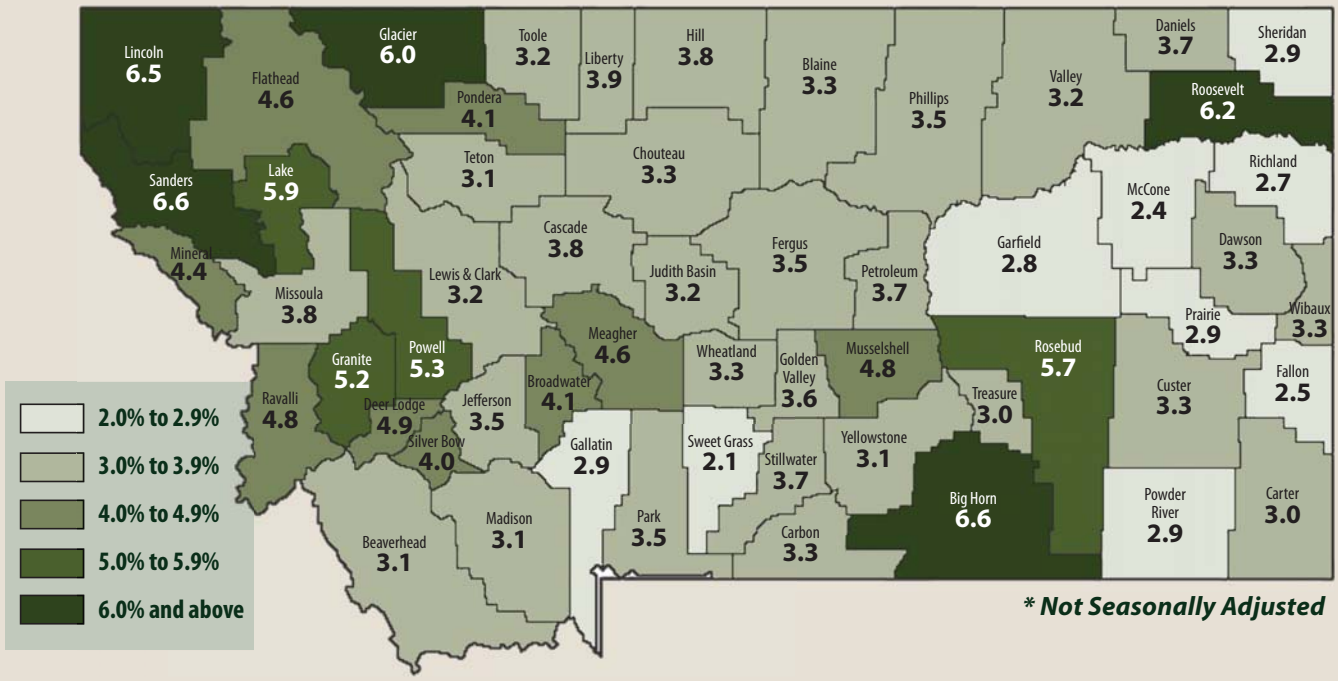
Works Cited:

[1] Price data is from the September CPI-U, unadjusted. Employment data is September CES. Bureau of Labor Statistics.

[2] Global Insight, 2008. "State Employment: Even Worse Than It Looks?" Published on September 22, 2008. Available by subscription.

MONTANA Economy at a Glance — County Unemployment Rates* - September 2008

Montana Average Rate: 3.8%



** Not Seasonally Adjusted*

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